

MEETING MINUTES

Office of Economic Development
Economic Development Advisory Board
57 E. 1st Street
Lower Level Council Chambers
Mesa, AZ 85201

Date: November 3, 2015 **Time:** 7:30 A.M.

MEMBERS PRESENT

Terry Benelli
James Christensen
Natascha Ovando-Karadsheh
Dominic Perry
Jeff Pitcher
Steven Shope
Laura Snow, Chair
Jo Wilson

EX-OFFICIO

Mayor John Giles (excused)
Chris Brady (excused)
Rich Adams (absent)
Brian Campbell
Jeff Crockett
Sally Harrison

STAFF PRESENT

Bill Jabjiniak
Lori Gary
Shea Joachim
Julia Lichtenberger

MEMBERS ABSENT

Robert Stanger (excused)

GUESTS PRESENT

Dane Mullenix

1. Chair's Call To Order

Chair Laura Snow called the meeting to order at 7:31 a.m.

2. Items from Citizens Present

None.

3. Approval of Minutes from the September 1, 2015 Board Meeting

Chair Snow called for a motion to approve the minutes from the September 1, 2015 meeting.

MOTION: Jo Wilson made a motion to approve the minutes.

SECOND: Steven Shope seconded the motion.

DECISION: Passed unanimously

4. AZLabs Update

Shea Joachim, Senior Project Manager, Economic Development gave a presentation on AZLabs. He introduced Dane Mullenix, Director of the Arizona Laboratories for Security and Defense Research (AZ Labs), who shared a brief history regarding AZLabs. Shea Joachim conveyed where the facility is located and that the site is about 6 1/2 acres with approximately 100,000 gross square feet, and the leasable square footage is approximately 80,000. This is formerly the Air Force Research Lab that

was assigned to Williams Air Force Base. It was part of the 2015 Base Realignment & Closure Act, causing the research facility to close in June 2011 and move to Wright-Patterson Air Force Base. Much of the talent that was associated with the Air Force Research Lab didn't want to move to Ohio, so while the facility was going through the federal process for disposition, the City of Mesa expressed an interest in the facility and saw an opportunity to establish the facility as a center of excellence for Research and Development, specifically in the security and defense realms. The City acquired the facility through an Economic Development Conveyance. In June 2011, the City hired Alion Science and Technology to manage the facility, both from a property management, and from a business development standpoint. In the past 18 months, the City of Mesa has completed the purchase of the property from the Air Force, so it is now under City of Mesa ownership.

The first couple years of the initiative, AZLabs did not develop in the way the City had originally envisioned due to a variety of mitigating factors. One of the issues was the federal budgeting process and sequestration, resulting in the flow of contract dollars being greatly slowed. Mr. Joachim stated that significant progress has occurred at the facility in the past 24 months. Management costs have been reduced by about 50 percent on an annual basis. Occupancy is up to about 30% of the facility's leasable square footage and the rent revenues cover about 80% of the management costs of the facility. Ideally revenues would eventually be able to cover 100% of the costs. The tenant mix in the facility includes private for-profit businesses, non-profit businesses and academic institutions. This aligns well with the original vision for the facility. There is approximately \$85M in federal research and development being done at the facility today. This number is expected to grow to approximately \$125M in the next six to eight months. More than 50 individuals are currently employed on the site across the tenant mix, and will likely increase to 125 people in the next six to eight months. There is some pretty exciting research and development being done at this facility, bringing federal dollars into the community and supporting valuable high wage, highly-skilled individuals.

Shea Joachim pointed out growth in the aerospace and aviation sectors is expected in the future. The City is exploring development of the site to provide a key niche in simulators, and expect cyber security to be a huge part of the future of the AZLabs. He also shared that the City is currently exploring opportunities for unmanned systems, specifically a virtual test range for unmanned systems to be hosted at AZLabs.

Dane Mullenix discussed lessons learned to date with the project. He pointed out that early on, when this was first envisioned, the City had written a fairly large number of leases, almost none of which closed due to the federal budgeting process. Continuing Resolutions and Sequestration had a devastating impact on the pace of leasing, but having survived that period, the City is now in a position, to take advantage of new contract awards. Additionally much has been learned about the physical facility. When Alion entered into the facility, they adopted the same maintenance process the Air Force had used. A local contractor was hired with a fairly large on-site staff that performed in-house maintenance. In addition, Alion still had to do additional contract work on systems that were failing. One of the most notable was a 2012 double failure of their industrial chillers. After this failure, Alion released the in-house maintenance contractor, and replaced it with a smaller, more professional team. They also added a warranty system, essentially putting state-of-the-art instrumentation on the large, old industrial machines. After the rebuilds of the two chillers, along with the digital instrumentation and monitoring, and the high-end preventative maintenance, the chillers are now operating at a much higher degree of efficiency and reliability. All the major systems on the site are under warranty and this reduced overall management fees by roughly half. Revenues are going up as new leases are signed and overhead is coming down with the efficiencies that have been gained. This trend is expected to continue.

Question: Laura Snow asked if there were any other capital investments that they anticipate will be needed in the near future.

Answer: Mr. Mullenix stated there are four industrial chillers on the site. Alion believes three are actually required. Two are currently operational, but a rebuild of the other single chiller will be needed. There are some roofing repairs that need to be done. Approximately half of the roofing has already been replaced. Additionally, there are some chilling towers that need to be repaired or replaced. Individually none are huge ticket items, but in total it would cost about \$400,000 over the next two to three years.

Comment: Director Jabjiniak asked if Mr. Mullenix wanted to address the electrical issue that will also be a major capital investment.

Answer: Mr. Mullenix shared that since 2012, all of the electrical infrastructure on the site has been replaced, except one unit. This one unit, referred to as the SES (Service Entrance Structure), which is the utility entry point for the entire facility, needs new digital infrastructure put in place. This needs to be done because some of the tenants are going to require very clean, very reliable electrical power.

The current system might last another ten years, but it also might crash tomorrow. An unexpected outage would take much longer to repair, than would a planned changeover. The planning phase of replacing the SES, at a cost of between \$525,000 and \$550,000 which would cover acquisition, replacement, and installation is in process.

Question: Steven Shope asked what percentage of the tenants are using the TS/SCI (Top Secret/Sensitive Compartmented Information).

Answer: Mr. Mullenix stated that 90 percent of the tenants are doing classified work.

Question: Steven Shope inquired if it was necessary to preserve all the TS space

Answer: Mr. Mullenix stated that there was no reason not to preserve the TS space, as it doesn't cost any more to preserve it, and there are now a couple of tenant candidates which will absolutely have to have that infrastructure. He further shared that having TS space is one of the items creating interest, and not having it would take AZLabs off the shopping list for some potential tenants.

Question: Steven Shope asked why they don't have any federal tenants in the project.

Answer: Mr. Mullenix answered that they have a small federal presence with the hope of a major federal presence in a few months.

Question: Steven Shope pointed out the building still has the look of a 1950's government facility and wondered if there were any plans to improve the cosmetics of the buildings.

Answer: Mr. Mullenix said they were just starting to discuss cosmetic changes, as they have had so many higher priority items. He shared that he thought the City's decision to hold tightly on the purse strings until they build occupancy was a good decision, but it doesn't allow a lot of extra funds for cosmetic changes. However, Mr. Mullenix believes there are some things they could do that would be relatively affordable, to change the physical appearance.

Question: Brian Campbell asked about SIPRNet and wondered if the site had SIPRNet access.

Answer: Dane Mullenix stated that they still do not have SIPRNet access, but they have three sponsors working on the issue. They have internal agreements with about five of the tenant contracts to share SIPRNet. He conveyed that SIPRNet was the U.S. Government's encrypted email system, by which you exchange sensitive and classified information.

Question: Brian Campbell asked for a timeline regarding SIPRNet.

Answer: Dane Mullenix said it would be difficult to provide a timeline. The tenant that they hope to have in the facility in January of 2016 has a SIPRNet requirement. The tenant has agreed to co-use by the other authorized users within AZLabs. He believes it will take at least a few more months to be up and running due to bureaucratic issues.

Question: Brian Campbell asked for clarification on the January tenant and their part in procuring SIPRNet.

Answer: Dane Mullenix stated that it would be the tenant's responsibility to acquire SIPRNet and AZLabs would be assisting them in getting the physical space accredited and configured to accept it.

Comment/Question: Jeff Crockett thanked Shea Joachim and Dane Mullenix for their presentation. He pointed out that this is a project that Staff has believed in for some time and it was very encouraging that the project is bearing fruit. He asked when Mr. Mullenix anticipated the point where the project would cover its costs.

Answer: Dane Mullenix said he anticipated this happening over the next year.

Answer: Shea Joachim said it was difficult to answer this question with certainty. He stated, if leasing continues at the pace that it has been, it could definitely happen in the next year, but it is contingent on some of the lease proposals coming through, and the leasing process doesn't always go as planned. Mr. Joachim shared that it was their hope that the potential January tenant would occupy the facility for 10+ years.

Question: Jeff Crockett asked if the budget deal that was passed this week effectively reverses the Sequester.

Answer: Dane Mullenix stated that Sequestration took budget authority away from the Department of Defense, where most of AZLabs tenants have their contracts administered. As a result, the DOD simply did not have the authority to award most contracts. This especially hurt new and start-up contracts for the type of tenants AZLabs is seeking to bring in. The two year budget deal seems like a positive benefit for AZLabs, and now the pending contracts, with contingency leases attached to them, will award and those tenants can close and move in.

Dane Mullenix then continued his presentation by going over the challenges AZLabs faces going forward. He shared that one of their challenges was diminishing inventory for their most popular

space. The most popular requirements of space that is desired by tenants is raised-floor computer labs, secure storage space and fabrication space. AZLabs is looking at the possibility of converting some office space to fabrication space to accommodate the tenants requesting this usage. The remaining space available will require some renovation, including paint, carpet, and lighting. Mr. Mullenix shared that cyber security presented a huge opportunity, as well as the idea of doing virtual testing. They also have a potential tenant interested in using the space for a large data center. The potential tenant would be looking for a long term commitment, so this is a promising potential opportunity for AZLabs.

Mr. Mullenix ended his part of the presentation. Shea Joachim asked the Board if they had any questions.

Laura Snow thanked Shea Joachim and Dane Mullenix for their optimistic and encouraging presentation.

5. Fiesta District Update

Chair Laura Snow asked Lori Gary to begin her presentation on the Fiesta District. As she was getting set up, Director Jabjiniak shared that Ms. Gary had been the point person on a project that she has been working on for quite some time. Yesterday, a company who will be locating in Centrica went public. The Centrica project will house a large financial firm and bring approximately 1000 jobs to Mesa. Additionally, it is within the Fiesta District. He thanked Lori for her efforts on behalf of this project.

Lori Gary, Project Manager with the Office of Economic Development, began her presentation on the Fiesta District. She went over the map that was provided to the board members showing the geographical boundaries of the Fiesta District, one of Mesa's employment districts. She shared the anchor institutions within the district: Banner Desert Medical Center, Cardon Children's Medical Center, and Mesa Community College. She pointed out that at one point in time, on the east end of the Fiesta District, there were large anchor stores in the retail sector, which provided a thriving employment center, especially in the late 70's and early 80's. Since then, the area has undergone some significant transitions. The entire geographical area is about 730 acres. She pointed out that the big box stores will never come back to Fiesta District. Retail is now done differently across the

United States than it once was. The mall and its surroundings were built in the late 70's, and in the 80's and 90's this area flourished. The big box stores are now transitioning to corporate office centers. She shared that the new project, Centrica, had formerly been Bed, Bath and Beyond, Petco and Circuit City, at the corner of Southern and Longmore. Staff has been working with some great investors who are transitioning those buildings into an office center. The news was just released yesterday that Santander Consumer USA will be the primary tenant in the 117,000 square foot Centrica facility. Santander is headquartered in Dallas and is part of an international company. The jobs they are bringing are high quality jobs and will help invigorate this area in the Fiesta District.

Lori Gary continued her presentation, pointing out that in 2009 and 2011, the City Council approved the plans being implemented today. One of the plans they approved, was the Southern Avenue Streetscape Improvement Project. Phase One has been completed. About three weeks ago, they celebrated the opening of the Paseo "micro parks" along Southern Avenue, which provide seating, landscaping, shade and bike racks. They are now transitioning into the second phase of the street improvement project. This will take Southern Avenue improvements all the way down to the Tempe Canal and represents a \$20M dollar infusion by the City into the district. Due to a robust economy, the Southern Avenue Villas are now being built after many years of waiting. The development was approved before the economic downturn, and it is now being completed with some minor changes. Southern Avenue Villas, approximately 350 units, will be developed in three phases. Phase One is currently under construction. This project will incorporate walkable streets, which is a part of the Fiesta District planning, and will be one of the first housing projects in the Fiesta District. Staff hopes this might provide housing for Santander employees. One reason this area is appealing to potential businesses is due to its convenient location off the 60 freeway. The other draw for businesses is the huge pipeline of fiber that runs east/west on Southern Avenue and this existing infrastructure is a selling point.

Ms. Gary shared the Macy's building had been purchased and this area has been undergoing demolition as it transitions to office spaces. The demolition on the interior has already started. This particular building had a lot of deferred maintenance, resulting in only the elevator avoiding demolition. The rest of the building interior is being completely demolished due to its poor condition. The outside appearance will be changed to allow for windows along the front and the entire space will become a 160,000 square foot high tech office space. In the 2011 Fiesta District Plan, one of the goals was to

take this geographical area and develop it into a mixed-use project. The developer, Scott Jackson, shares this vision. Mr. Jackson and his development partner are excited to be the anchor in the

transitioning of the mall area. Additionally, the mall is made up of numerous owners. Each of the anchors own their own pieces of property. The interior part of the mall has a different owner. Macerich, the company that owned the interior, defaulted on their loan several years ago, and the interior of the mall is now being managed by a special servicer for the bond holders. Scott Jackson and partner have also purchased the building where Dick's and Best Buy are currently located. The plan is that they would eventually transition these spaces over into office space as well, but Dick's and Best Buy are welcome to stay there as long as necessary. The Macy's building adaptive reuse is a \$20M transition and will take 18-24 months to complete. When the Macy's adaptive reuse is complete, they want two tenants (one on each floor) or a single tenant using the entire building. Ms. Gary shared one other interesting development. Just north of the Fiesta District, the surrounding apartment complexes have recently changed ownership and the new ownership is infusing capital into these apartment complexes. In an effort to update the properties. Ms. Gary ended her presentation and invited the Board to ask questions.

Question: Steven Shope asked what the average salary of the jobs that were being brought into the area by Santander.

Answer: Lori Gary answered that the average salary is over \$51,000 per job.

Question: Steven Shope asked what the price point was on the multi-family units being built on Southern Avenue.

Answer: Lori Gary said she did not know the answer to his question at this time.

Question: Steven Shope asked if it was possible to turn these buildings into Class "A" office space and do so without it continuing to look like a mall.

Answer: Lori Gary said that it was indeed possible.

Question: Steven Shope wondered if the interior of this area would have food courts to support the employees.

Answer: Lori Gary said it definitely would include a mixed-use component with retail/restaurant included to support the number of jobs that would be coming in.

Question: Steven Shope asked if Ms. Gary or Mr. Jabjiniak could speak to whether this type of transition would be necessary with Superstition Springs Mall in the future.

Answer: Mr. Jabjiniak replied that Macerich, who owns Superstition Springs Mall, is on top of the market. They also own San Tan Village. They have continued to invest in the area. They are always looking at ways to improve the property and their sales are up, which is an encouraging sign. Director Jabjiniak shared that it was also important for the Board to pay attention to changing demographics and other issues in order to stay on top of this as well.

Comment/Question: Brian Campbell shared his excitement regarding Santander and the significant contribution they will make to Mesa's economy. He asked what things were being done from a marketing standpoint to take advantage of having a new corporate citizen like Santander in the community.

Answer: Lori Gary said efforts of this sort were just beginning. She shared that although the ink is dry on the lease, there is still much work in the way of infrastructure that needs to be done to be able to accommodate them by January of 2016. They are definitely planning on marketing the area by capitalizing on the positive name recognition associated with Santander.

Comment: Bill Jabjiniak shared that there are many exciting developments in the works, one of which will be formally announced later today. National General Insurance, Lender Services will be moving into a redeveloped office building at 827 W. Grove, a property that has been sitting vacant for some time. This company will bring 500 jobs to Mesa.

Question: Brian Campbell asked what can be done to encourage mass transit in this area.

Answer: Lori Gary said it would be a good idea to vocalize support of the particular transit route going into the Fiesta District. She shared that one of the selling points for this company was robust mass transit. Ms. Gary believes that the more mass transit Mesa has in place, the more companies they will be able to attract to Mesa.

Comment: Brian Campbell said it was a good idea to keep pushing Valley Metro as they are a key component.

Question: Dominic Perry asked if any incentives were given for the 1000 jobs that were created through Santander coming in to the Centrica project.

Answer: Lori Gary shared that the state offered the jobs tax credits due to the fact that they met the criteria set to receive the credits. She shared two of the criteria required. Additionally, one of the criteria was \$5M worth of investment in Year One. Santander's investment in the first five years will be \$14M, not including payroll. The City fast-tracked the project through, using expedited process.

Answer: Bill Jabjiniak additionally shared that the City has a Mesa resident job creation program that they have developed, that will be going through the development agreement process if necessary.

Chair Laura Snow thanked Lori Gary for her presentation and thanked her for her part in securing these great outcomes.

6. Director's Report on:

- **GPEC Update**

Director Jabjiniak gave an update on GPEC. He mentioned that Shea Joachim had just returned from a trip to Toronto. GPEC also took a recent trip to Mexico City. Six mayors from across the state participated in the trip. Also, GPEC just had their annual dinner and he thanked everyone who was able to attend.

- **Marketing and Business Development Activities**

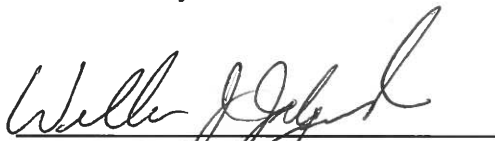
Director Jabjiniak said that Staff has been busy traveling to a variety of events as October is a busy travel month. He shared the following upcoming events:

- November 10 - Go Financial ribbon cutting at 11:00 a.m.
- December 1 - CMC Steel ribbon cutting at 11:00 a.m.
- December 9 - National General Insurance formal ribbon cutting at 10:00 a.m.
- December 12 - Falcon Field Airport ribbon cutting
- December 15 - Courtyard by Marriot ribbon cutting at 11:00 a.m.

In addition, this past weekend ATS, Automated Traffic Solutions began occupying the building at Riverview at the corner of Alma School and Bass Pro Drive. Groundbreaking was in January 2015 and on November 1 they moved in. Additionally, there has been a lot of interest in that location. Now they just need to convert the interest to new buildings and jobs!

Chair Snow thanked Director Jabjiniak and his Staff for all of their efforts. She stated that City offices would be closed on Wednesday, November 11 for Veteran's Day and on Thursday, November 26 for Thanksgiving. The next EDAB meeting is set for December 1, 2015. With no further action before the board, Chair Snow adjourned the meeting at 8:37 a.m.

Submitted By:



William J. Jabjiniak
Economic Development Department Director
(Prepared by Debbie Frazey)